

# **CenturyLink Intercarrier Compensation Reform Talking Points**

**November 2, 2010**

- CenturyLink supports the National Broadband Plan framework generally.
  - Intercarrier compensation rates should be harmonized at a reasonable, cost-based level through a stable transition, and the end state should not be defined until the market has evolved.
  - An access replacement mechanism, and not just local rate increases, is needed to rationalize carrier-of-last-resort service in many high-cost areas. Such an ARM must provide real compensation opportunities, and it needs to be clearly defined and predictable before the reductions are announced.
  - The Commission must enforce current rules and dispute mechanisms and not allow unilateral re-rating and refusals to pay.
- The Commission must stabilize ICC and build momentum for reform by taking several interim actions at once—moving to an order and not another NPRM on a complete record.
  - The requested interim actions are phantom traffic rules; access pumping rules (including capping CLEC intrastate access); and a standstill requirement preserving the industry’s historical treatment of IP-originated traffic during the pendency of the proceeding.
  - Without these measures some companies are benefitting from their failure to abide by the rule of law, undermining the FCC’s ability to promote its policies. A “wild west” culture is emerging and, left intact, threatens the Broadband Plan.
  - Moving to an Order now will show states and providers that the FCC can act, which will bring recalcitrant parties to the table. We will not stop working with the FCC and pushing for reform if the interim actions are taken at once.
- ICC must be reformed more broadly to reduce arbitrage, stabilize intercarrier relationships, and facilitate broadband deployment.
  - The transitions must be stable and measured—4 years on intrastate to interstate, which is the biggest component of the reform—and the end state should not be defined until the market has evolved.
  - Postpone adoption of next steps until the transition to harmonized interstate and intrastate rates is complete:
    - Much will have been achieved and, with additional market erosion, substantial rate relief will have been provided

- The market is evolving rapidly and the best course of action could easily be different than the Commission would project today
- Highly sensitive issue, trying to do too much at once risks another failure
- Displaced ICC revenues must be recoverable from retail rates and explicit USF
  - Retail rate benchmark can be established to ensure consumers pay their fair share – but no more than their fair share.
    - Retail rate benchmark must be no higher than competitive levels or will not be viable. R1 + SLC must not exceed \$25.
    - It simply is not fair to ask one subset of customers—those that choose service from the ILEC—to pay the bulk of the cost of COLR mandates in areas that are uneconomic to serve.
    - ICC currently provides support for universal service policy goals and the cost of universal service must continue to be borne by all customers.
  - Explicit USF should be targeted to high-cost areas; level of funding must sufficiently pay for universal service policy.
  - We need more clarity on the ARM, and how COLR providers will be able to recover revenues lost to reform, which support ongoing obligations.
- It is helpful to remember a couple of facts about Intercarrier compensation:
  - Intercarrier Compensation covers:
    1. A share of end user cost (small);
    2. Transport costs (high in rural areas, where recip comp is greater than or equal to interstate access); and
    3. Contribution to universal service (often the only support because of study area averaging).
  - The \$0.0007 rate for reciprocal compensation should not be allowed to be the “tail wagging the dog”—it was created to deal with a specific arbitrage problem, and it should not drive overall policy.

- The costs of fulfilling mandates to provide service to high-cost low population dense areas are real and must be funded.
  - Policy decision must focus on rural consumers; not providers – and certainly not big providers vs. small providers.
  - Policy decisions based on size of carriers unfairly discriminate against the high-cost customers of larger providers; a major deficiency of current policy.
  - The days of relying on internal cross subsidy from urban to rural are long due to pervasive competition in lower cost areas. Such policy is a relic of the past.
  - Competitive areas cannot be relied upon to fund non-competitive areas.
  - All providers must contribute to funding this public policy goal, and intercarrier compensation is a critical component that has kept the federal USF at a manageable size.
- The Commission must re-state its long-standing “physical end-point rule” for determining the jurisdiction of intercarrier compensation in advance of adopting intercarrier compensation reform rules that will likely shift access revenues to another form of compensation.
  - The Commission must reject the notion that traffic is not subject to access charges just because it is locally dialed—this is directly contrary to Feature Group A access.
  - The FCC must confirm that the jurisdiction of traffic is not altered based on the amount of transport the competitive carrier provisions to connect to the ILEC network.